Outward foreign direct investment by Polish enterprises – trends, prospects
Table of contents

Key findings .......................................................... 4
The report in numbers ................................................... 5
Introduction ................................................................ 6
1. Poland on the regional and world maps of foreign direct investment ........................................... 8
   1.1. Global capital flows in the form of foreign direct investment .................................................. 8
   1.2. Polish outward foreign direct investment .............................................................................. 11
   1.3. Polish outward foreign direct investment against the backdrop of investment from Central and Eastern European countries .................................................. 14
2. Polish investors and their foreign operations .......................................................... 18
3. Models and specific characteristics of outward foreign direct investment by Polish enterprises ........................................ 24
4. Outward foreign direct investment by enterprises and its effects on the economy ......................... 26
5. Poland’s position on the investment development path .......................................................... 28
6. Motives for and barriers to outward investment and the development of their importance over time (on the basis of findings from 2006–2019 surveys) .................................................. 31
7. State support for undertakings investing abroad .......................................................... 38
List of figures, tables and charts ........................................ 44
References ................................................................ 46
Key findings

1. Poland’s outward foreign direct investment is a major factor contributing to the development of domestic enterprises. In addition, outward investment by enterprises may stimulate exports as well as economic and institutional development of the country, which determines proper functioning of the market economy.

2. In 2008–2017, there was an increase in both the number of entities taking up activities abroad and that of foreign operations set up by those investors in the form of subsidiaries (wholly owned by Polish undertakings), branches or establishments in the host countries. In addition, Polish foreign direct investment showed clear geographical diversification, but the European Union Member States remained preferred FDI destinations.

3. A relatively low – even if rising – level of Poland’s direct investment abroad results from the limited competitiveness of Polish undertakings in the global market and from institutional conditions, with little contribution to outward foreign direct investment.

4. Catching up by the Central and Eastern European countries (CEECs) with regard to outward foreign direct investment may be conducive to their further economic and institutional development.

5. Outward foreign direct investment is of particular importance in the context of the ongoing fragmentation of production and service processes within global value chains. Participation in such chains is essential to building the international positions of the CEECs’ businesses and economies, including the Polish economy.

6. Boosting the internationalisation of domestic enterprises by increasing the scale of their foreign direct investment abroad largely depends on taking economic and institutional policy measures. It concerns support for the development of social, economic and market institutions influencing transaction costs, thus the internalisation and ownership advantages of domestic enterprises.

7. According to the results of surveys of Polish exporters conducted by the Institute for years, the reasons for little interest from Polish enterprises in outward investment are largely structural in nature: as many as 70 per cent of non-investing undertakings found it unnecessary.

8. As demonstrated by the findings from the PEI surveys, the most popular support instruments among those offered by the Polish Investment and Trade Agency (PAIH) for outward foreign direct investment included fact-finding missions and study visits. In contrast, support for cooperative links and post-investment services attracted the least interest.
<table>
<thead>
<tr>
<th>The report in numbers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PLN 92,5 billion</strong></td>
</tr>
<tr>
<td><strong>90 per cent</strong></td>
</tr>
<tr>
<td><strong>24 per cent</strong></td>
</tr>
<tr>
<td><strong>3rd place</strong></td>
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<tr>
<td><strong>1,838</strong></td>
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<tr>
<td><strong>10 per cent</strong></td>
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<tr>
<td><strong>93 per cent</strong></td>
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<tr>
<td><strong>9 per cent</strong></td>
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<tr>
<td><strong>63 per cent</strong></td>
</tr>
</tbody>
</table>
Introduction

In addition to exports, foreign direct investment (FDI) is one of the main forms of expansion abroad. It is fundamental to the level and efficiency of international cooperation and economic exchange. FDI is an important component of economic development in individual countries, although frequently undervalued.

As defined by the UNCTAD (2011), FDI is investment made in a country other than the country of origin. It aims to obtain effective control of particular undertakings. FDI is of a long-term nature. In many cases, such investments involve the transfer of knowledge acquired in the process of expansion abroad, specifically with regard to technology, know-how and knowledge about the functioning of foreign markets as well as to innovation.

But foreign direct investment is mostly the key component of the development of international corporations. The ownership structure makes them affiliated with enterprises within their groups in such a manner that at least one entity has effective influence on the other undertakings. It allows sharing knowledge, resources, risks, etc. (OECD, 2008). Their operations are subject to international fragmentation, whereas such corporations have effective control over the performance of management, strategic and innovation functions.

From the beginning of economic transition and, subsequently, after accession to the European Union (EU), Poland was perceived by foreign corporations as an attractive location in the context of foreign direct investment. Next, in the past fifteen years, there has been a steady increase in investments by Polish enterprises abroad, including in the form of direct investment. As a result, between 2004 and 2018, Poland’s outward FDI stock rose nearly 10 times, to PLN 92.5 billion as at the end of 2018 (NBP Tables, 2019). As diagnosed in the Strategy for Responsible Development, the situation with regard to the internalisation of Polish enterprises is dominated by simple forms of foreign cooperation (Strategia na rzecz Odpowiedzialnego Rozwoju, 2017).

This report largely analyses outward investment by Polish entities against the backdrop of global FDI and the region of Central and Eastern Europe (CEE). The report aims to present the main outward investment issues and attempts to answer questions about the motives behind outward investment by businesses; the sources of funding direct investment; geographic regions attracting the most interest from Polish enterprises and planned investment locations for the next few years. It also attempts to show Poland’s position on the investment development path and to answer the question about reasons for supporting Polish enterprises engaging in outward direct investment.

The sources of data on Poland’s outward foreign direct investment were statistics of the National Bank of Poland (NBP) published in cyclical materials entitled Polskie inwestycje

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1 For individual undertakings, it involves an acquisition of an equity stake of more than 10 per cent (of the voting power).
2 The CEE region is classified as: Bulgaria, the Czech Republic, Estonia, Lithuania, Latvia, Poland, Romania, Slovakia, Slovenia and Hungary.
bezpośrednie za granicą (‘Polish direct investment abroad’) and the results of annual surveys conducted from 2009 by the Central Statistical Office (GUS) on activities of entities with foreign operations. Information on support instruments for Polish investors abroad was obtained from national institutions, especially those included in the Polish Development Fund (PFR) Group – PFR TFI S.A., PAIH, BGK, KUKE – as well as from selected self-regulatory organisations. International comparisons are based on the UNCTAD data contained in the World Investment Reports (for successive years) and in the UNCTADstat database.

As an important part, the report presents the results of multiannual surveys conducted by the Institute in collaboration with GUS on a group of 600 selected Polish exporting enterprises. The most recent survey was carried out in October 2019.
The globalisation process has strongly shaped an integrated world economy, primarily by increasing the international mobility of capital and production factors such as labour and knowledge. The elimination of economic and technological barriers has been accelerating; political obstacles are on the decline. In order to boost competitiveness, enterprises increasingly go beyond traditional international trade in goods and services, establishing various interrelations consisting in business combinations, partnerships, joint ventures, licence agreements and other forms of cooperation.

Recent years have witnessed growing structural effects of the digital economy on foreign direct investment. Serious challenges are faced, especially, by developing countries. The relocation of jobs to countries offering cheaper labour has been diminishing in importance in a world of increasingly automated production.

We are at the brink of the fourth industrial revolution, driven by modern technologies and ongoing robotisation, making production better, more cost-effective and faster than ever before. All this offers enormous opportunities for economic growth and sustainable development, with potential large-scale gains. However, the new economic era and accelerated technological innovation may also cause serious economic disruptions and increase inequalities. The existing investment patterns may change significantly, in terms of both destinations and nature of investments.

1. Poland on the regional and world maps of foreign direct investment

Foreign direct investment largely depends on the size and growth rate of the world economy. Ever-deeper interrelations resulting from the globalisation process also strengthen adverse effects of various developments in the business environment. In 2008–2009, the global economic and financial crisis largely contributed to a fall in international capital flows in the form of foreign direct investment against 2007. It affected both greenfield and brownfield investments, joint ventures (consisting in the creation of production assets by foreign nationals), investment in the form of merger and acquisition deals (the acquisition of existing assets by foreign nationals) worldwide. The upswing observed in the world economy after 2010 was temporary; the years
2012–2014 again saw recession or stagnation in the European Union Member States. In a number of countries, the slowdown has been observed to date. As a result, in 2012–2014 global inward FDI flows dropped by 14 per cent in comparison with 2011. A marked improvement was noted in 2015 when global FDI inflows jumped by nearly 50 per cent on the previous year, to USD 2 trillion, and then 2016 saw a similar, even if slightly lower, figure (USD 1.9 trillion) (UNCTAD 2019) – cf. Chart 1.

From 2016 global inward foreign direct investment flows started to fall and the downward trend deteriorated in the following years. In 2017 FDI inflows went down – on the previous year – by 21 per cent, to USD 1.5 trillion. In 2018, their value further dropped by 13 per cent, to USD 1.3 trillion. There was a plunge in inward FDI flows to advanced economies (by 27 per cent 2017, by 37 per cent in 2018) – to USD 556.9 billion in 2018. The decrease in FDI was mostly due to largescale transfers by US multinational enterprises (MNEs) in the first two quarters of 2018, after tax reforms introduced in the United States. The decline was less abrupt in the second half of the year, thanks to increased international activities of US enterprises. In 2017–2018, a considerable fall in FDI inflows was also noted by economies in transition (by 26.5 per cent and 28 per cent respectively); in 2018, it was mostly caused by a slide in inward FDI inflows to Russia by 49 per cent. In the last years of the period covered, FDI flowing to developing economies rose slowly (by 5.2 per cent in 2017, by 2.2 per cent in 2018), but developing countries still accounted for more than half of global inward FDI (USD 706 billion) in 2018.

Advanced economies significantly limited outward FDI worldwide in 2017–2018 (down by 16.3 per cent and 39.6 per cent respectively). In 2018, they invested abroad nearly an equivalent of the amount of their inward FDI flows (USD 558.4 billion). After two years of growth, in 2018 developing countries reduced by 9.6 per cent their outward FDI flows as well. At the same time, economies in transition maintained their FDI outflows almost unchanged.
in comparison with the previous year (2018 – USD 38 billion). In 2000–2018, the stock of global (inward) FDI increased more than 4.3 times, from USD 7.4 trillion at the end of 2000 to over USD 32 trillion at the end of 2018. Almost one-third of foreign direct investment is located in developing economies (at the end of 2018 – USD 10.7 trillion). It means that the figure exceeded the inward FDI stock in the EU (2018 – USD 10.1 trillion). Developing countries are no longer mainly recipients of capital in the form of direct investment; they are increasingly countries of origin. As the end 2018, developing countries accounted for 33 per cent of global FDI stock, whereas the share of outward foreign direct investment by those economies in the world’s outward FDI stock was 24 per cent – cf. Chart 2.

In 2018, global investment flows in the form of mergers and acquisitions (M&As) reached USD 816 billion, whereas the value of declared greenfield investment projects was nearly USD 980.7 billion. In 2018, the highest total value of greenfield projects was noted in services, at USD 473.5 billion. Those were closely followed by investments in manufacturing – USD 466 billion.

The top three industries receiving direct investment were as follows: coke and refined petroleum products – USD 86.2 billion, chemicals and chemical products – USD 75.3 billion, electrical and electronic equipment – USD 58 billion. In 2018, net M&A sales in services were USD 469 billion, of which business activities received USD 111.9 billion, financial services – USD 108.4 billion, information and communica-
1. Poland on the regional and world maps of foreign direct investment

For 2019, UNCTAD experts projected global foreign direct investment to show recovery of 10 per cent on the previous year, to USD 1.5 trillion (UNCTAD, 2019). But world trade tensions (such the US–China trade war) may not only arrest growth, but even push down FDI.

1.2. Polish outward foreign direct investment

Despite a significant – for Poland – rise in the outward FDI stock in 2000–2004, in 2004 the share of enterprises based in Poland in generating global direct investment outflows was minute. Only Poland’s accession to the European Union (1 May 2004) stimulated domestic undertakings and facilitated their expansion within the EU. It also allowed them to benefit from EU financial assistance, fostering Poland’s development and economic catching up with other Member States. The inclusion in the free movement of capital, persons, goods and services in the EU and the adoption of the acquis communautaire fuelled trade and pushed up FDI inflows to Poland as well as – perhaps primarily – the value of Polish outward foreign direct investment in subsequent years.

Poland has been an even-more active global market player as a capital exporter, but the contribution of Polish enterprises to global FDI flows continues to be marginal. They lag far behind their counterparts from the best European performers such as the United Kingdom and Germany, not to mentions global leaders (the United States, China).

In particular years of the 2007–2011 period, Polish outward FDI in Europe exceed 90 per cent of the overall foreign direct investment abroad. In subsequent years, enterprises endeavoured to diversify their FDI geographically, investing in America and Asia as well. In 2016, Polish outward FDI reached a record high of PLN 45.7 billion. There was a marked fall in the share of capital invested in Europe (to 70 per cent), a rise in that of American investments (30 per cent), whereas businesses disinvested in Asia (0.3 per cent).

The following year saw an almost sixfold decline in the value of Poland’s outward FDI deals (PLN 8.2 billion). Investments in America continued to represent a major share (34 per cent), whereas outward FDI in Europe accounted for 64 per cent. In 2018, outward foreign direct investment from Poland was negative, at PLN -1.5 billion (cf. Chart 3). The negative component included transactions in respect of shares and other forms of equity.

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3 2008 was an exception (ca. 84 per cent), with an increase in investments on the American continent – accounting for 12 per cent of total outward FDI.

4 Information on Polish direct investment abroad in 2013 was prepared for the first time on the basis of new standards of the Organisation for Economic Co-operation and Development (OECD) concerning the preparation of FDI statistics, described in the Benchmark Definition of Foreign Direct Investment, 4th edition (BD4). The most important change introduced was a new classification of direct investment income, transactions, receivables and payables between entities within a group of undertakings. In order to apply the classification, it is essential to identify and determine the resi-dence of the ultimate controlling parent in the group concerned. For a description of the methodology, see: Polskie i zagraniczne inwestycje bezpośrednie w 2013 r., Nota metodyczna, NBP, Warszawa 2015.
1. Poland on the regional and world maps of foreign direct investment

securities (PLN -7.5 billion), whereas the reinvestment of earnings (PLN 5.1 billion) and transactions concerning debt instruments (PLN 1 billion) made a positive contribution.

In 2018, outward foreign direct investment by Polish residents was mostly located in Luxembourg (PLN 6.6 billion), the Czech Republic (PLN 4.3 billion) and Cyprus (PLN 1.3 billion). Disinvestment mainly concerned Switzerland (PLN -6.1 billion), Canada (PLN -5.6 billion) and Sweden (PLN -5 billion). In 2018, most FDI was located in foreign direct investment enterprises related to manufacturing (PLN 8.5 billion), mining and quarrying (PLN 1.8 billion). Disinvestment primarily affected undertakings engaged in financial and insurance activities (PLN -8.6 billion).

In 2004–2016, Poland’s income on outward FDI rose from PLN 10 billion to PLN 116.5 billion (year-end data). At the end of 2017, income on Poland’s outward foreign direct investment fell for the first time (by 12.8 per cent on the previous year), which primarily stemmed from revaluation (Zagraniczne inwestycje bezpośrednie..., 2019). In the following year (at the end of 2018), it dropped again by 9 per cent, to PLN 92.5 billion (NBP Tables, 2019). Nearly 90 per cent of Polish capital in the form of direct investment abroad was located in Europe (of which the EU accounted for 87 per cent). Other locations included America (5.6 per cent), Asia (3.6 per cent) and Africa (0.9 per cent). At the end of 2018, the structure of income on Poland’s outward foreign direct investment showed minor changes in relation to the previous year. The country characterised by the highest income on outward FDI remained Luxembourg (PLN 28.1 billion, i.e. 30 per cent of total income), followed by the Czech Republic (PLN 10.4 billion), ahead of the following: the Netherlands (PLN 9.5 billion), Hungary (PLN 6.8 billion), Germany (PLN 6.1 billion), Cyprus (PLN 6 billion), Lithuania (PLN 4.2 billion) and the United Kingdom (PLN 4.1 billion). The highest negative amount of income on outward FDI was noted for Sweden (PLN -17.1 billion) – cf. Chart 4. Poland had over 94 per cent of income in a total

**Chart 3.** Poland’s outward foreign direct investment (outflow and income) in 2003-2018 (in PLN million)

![Chart 3](image_url)
of twelve countries. It must be pointed out that the high ranks of entities based in Luxembourg, the Netherlands, Cyprus or Switzerland (in previous years) as the sources of Polish income on outward FDI result from the fact that the above-mentioned countries tend to be used for the optimisation of investment structures and some of the amounts return to Poland in the form of foreign investment. It follows from NBP analyses that in 2017 the scale of the phenomenon declined in comparison with the previous year (Zagraniczne inwestycje bezpośrednie..., 2019, p. 32).

For years, the structure of income on Poland’s outward FDI by industry has remained unchanged. At the end of 2018, the highest income on outward FDI characterised foreign direct investment enterprises engaged in services activities (nearly 74 per cent of total income), including: financial and insurance activities – PLN 29.4 billion, professional, scientific and technical activities – PLN 16.4 billion, wholesale and retail trade, repair of motor vehicles and motorcycles – PLN 11.1 billion. Those were followed by manufacturing – PLN 20.4 billion (22 per cent) as well as by mining and quarrying – PLN 4.5 billion (4.8 per cent).

It is characteristic of Polish direct investment abroad to be strongly concentrated in geographical terms. Despite attempted diversification of geographical destinations, Polish undertakings tend to implement investment projects primarily in Europe, preferably in the neighbouring countries. Such a degree of concentration makes outward FDI heavily dependent on the European market situation, mainly in the EU.

The geographical structure of Polish outward FDI transactions is mostly determined by single large deals. Those were primarily concluded by large corporations, including listed companies (Zagraniczne inwestycje bezpośrednie..., 2019). Poland’s outward foreign direct investment mainly results from activities carried out by large businesses, frequently operating within

Chart 4. Structure of Polish outward foreign direct investment at the end of 2018 (in per cent)

Source: prepared by the PEI based on: NBP Tables (2019).
global groups of undertakings. Therefore, they have limited influence on their own export and investment policies abroad, which was reflected in the results of the survey conducted by the Polish Economic Institute (its findings are presented further in the study).

Whereas large corporations tend to improve their international performance, small and medium-sized enterprises continue to focus on near and safer markets or attempt no outward investments at all.

In that regard, Poland’s position against the backdrop of the EU is not unfavourable. Few SMEs in other European Union Member States take up investing activities in the form of outward FDI. An average of merely 4 per cent of EU SMEs made direct investments abroad; the share was higher for medium-sized businesses (with 50 to 249 employees and/or turnover exceeding EUR 10 million). Only 15 per cent of medium-sized firms operating in the EU undertook any form of outward foreign direct investment. Relatively more frequent investments abroad characterised SMEs in Malta (11 per cent), Luxembourg (10 per cent), Denmark and Austria (8 per cent each). In Poland, 3 per cent of the total number of the SMEs surveyed declared outward investments and the size of enterprise did not matter much (medium-sized firms – 4 per cent) (European Commission, 2018).

The results obtained for SMEs in the EU were basically the same in terms of markets preferred for the location of direct investment (whether within or outside the EU). Only medium-sized enterprises were more inclined to invest in non-EU countries – according to a survey of SMEs operating in the European Union Member States, carried out for the EC in 2018 (European Commission, 2018).

1.3. Poland’s outward foreign direct investment against the backdrop of investment from Central and Eastern European countries

Before 1990, enterprises from Central and Eastern Europe (CEE), including from Poland, practically made no direct investment abroad. It stemmed from the then existing institutional and economic conditions. As a result of economic transition in those countries, followed by accession to the European Union, the situation changed gradually. Before 2000, direct investment from CEE remained very low, it did not begin to rise until 2004.

The stock of outward foreign direct investment from the CEECs went up from USD 17.6 billion at the end of 2004 to USD 120.4 billion at the end of 2018 (UNCTADstat, 2019). Therefore, it increased nearly seven times in the period in question, although at the end it only accounted for 0.4 per cent of global FDI stock. After steady growth in the stock of outward FDI from the CEECs in 2004–2013, the years 2014–2016 witnessed a decline in income on outward FDI.

However, in 2017–2018 the stock of direct investment from CEE again exceeded the 2013 level (cf. Chart 5). Chart 6 presents the stock of outward FDI from the CEECs in 2004–2018 (year-end data).
1. Poland on the regional and world maps of foreign direct investment

**Chart 5.** Stock of outward foreign direct investment from CEE and from Poland in 2004-2018 (year-end data, in USD million)

Source: prepared by the PEI based on: UNCTADstat (2019).

**Chart 6.** Stock of outward foreign direct investment from the CEECs and from Poland in 2004-2018 (year-end data, in USD million)

Source: as in Chart 5.
As at the end of 2018, the highest stock of outward foreign direct investment characterised the Czech Republic (USD 34.8 billion), ahead of Hungary (USD 29 billion) and Poland (USD 28.5 billion). The top performers were followed by Estonia (USD 8 billion) and Slovenia (USD 6.7 billion), whereas the least investment was made by Romania (USD 0.7 billion) and Latvia (USD 2 billion) – cf. Chart 7. At the end of 2018, three countries – i.e. Poland with a share of 23.7 per cent, the Czech Republic (28.9 per cent) and Hungary (24.1 per cent) – accounted for more than three-fourths of the stock of foreign direct investment outflows from the CEECs (Chart 8).

Source: as in Chart 5.
As at the end of 2018, the highest stock of outward foreign direct investment per capita was noted by Estonia (USD 6,085); nearly half the amount was achieved by the Czech Republic (USD 3,271), Slovenia (USD 3,243) and Hungary (USD 2,995). With an amount of USD 748 per person, Poland was ahead of Slovakia (USD 677) and behind Latvia (USD 1,033) – cf. Chart 9.

As at the end of 2017, in nominal terms, the stock of outward foreign direct investment from the CEECs per capita was USD 1,113.4, whereas at constant (January 2004) prices it was USD 774 (in 2004 – USD 167). It means a rise in real terms by 364 per cent in the period under analysis (UNCTAD, 2018).
2. Polish investors and their foreign operations

Polish undertakings operating abroad set up in the host countries subsidiaries, branches, establishments and units having other legal forms, hereinafter referred to as foreign operations. According to surveys conducted by GUS, since 2008 the number of entities established in Poland and having foreign operations has been growing annually (a minor fall was only recorded in 2012 – cf. Chart 10). According to the most recent data, in 2017 1,838 entities declared having foreign operations, up by 66.2 per cent in conjunction with 2008. The number of foreign operations of Polish businesses is on the rise as well – from 2,541 in 2008 to 3,941 in 2017 (up by 55.1 per cent). Between 2008 and 2017, there was an increase in the number of undertakings with foreign operations and in that of their foreign operations by 732 and 1,400 respectively.

Chart 10. The number of entities established in Poland and having foreign operations and the number of their foreign operations in 2008–2017

![Chart showing the number of entities with foreign operations and foreign operations over years]

Source: prepared by the PEI based on: Działalność podmiotów posiadających jednostki... (2016, 2019).

It follows from GUS statistics that in the current decade (2011–2017) the group of undertakings setting up their own foreign operations was dominated by micro- and small enterprises (in 2011, they represented a total of 38.6 per cent of all investing undertakings, while in 2017 the respective share was 41.7 per cent). In 2011, medium-sized entities accounted for 33.6 per cent and large corporations constituted 28.7 per cent, whereas in 2017 the proportions were 31 per cent and 27.3 per cent respectively (cf. Table 1).

5 The first survey was carried out in 2009 and it covered data concerning activities of entities established in Poland for 2008.
The majority of entities established in Poland and having foreign operations in 2011–2017 had the legal form of a private limited liability company (in 2011 private limited liability companies represented approximately 65.1 per cent of all undertakings having foreign operations, the 2017 figure was slightly higher – 65.7 per cent) or a public limited liability company (in 2011 – 29.8 per cent, in 2017 – 28.3 per cent). Other entities were mainly limited partnerships, general partnerships and other legal forms (2011 – 5.1 per cent, 2017 – ca. 6 per cent; cf. Chart 11). Most foreign operations set up by Polish entities were wholly or majority owned by Polish shareholders. In particular years, wholly owned foreign operations of Polish undertakings represented from 59.6 per cent to 66.5 per cent of the total number of established operations, whereas those majority owned accounted for 19.1 per cent to 22.5 per cent. Entities based in Poland also set up foreign operations with an equity stake below 10 per cent; in individual years of the period in question, their share ranged from 3.5 per cent to 4.6 per cent.

Entities established in Poland engaged their capital in more than 100 countries worldwide. In the breakdown by continent, investors mostly located their foreign operations in Europe. In 2011–2017, their number in Europe rose by nearly 21 per cent, from 2,666 to 3,217, most of them set up in the European Union. Outside Europe, the majority of operations were created in Asia and North America (cf. Table 2). The most foreign operations were established in the countries bordering on Poland – in Germany, the Czech Republic, Ukraine and Russia. A significant number of operations were also set up in Romania, Slovakia, Cyprus, Hungary and Lithuania. In 2011–2017, the number of foreign operations owned by entities established in Poland more than doubled in the USA (from 43 to 91), whereas in China it rose by 68.4 per cent (from 19 to 32).

6 The increase in the number of foreign operations and capital inflows to Cyprus are mostly of a financial nature, but this type of activity is also classified as outward foreign direct investment. Many Polish firms decide to relocate their registered offices or to set up a subsidiary or a branch in the country in question in order to significantly reduce tax burden.
Polish investors and their foreign operations

Entities established in Poland and having foreign operations are mostly enterprises engaged in manufacturing, trade, repair of motor vehicles, professional, scientific and technical activities and in construction. In 2017, their combined share in the total number of entities was 77.3 per cent, whereas that of their foreign operations in the total number of foreign operations – 70.2 per cent – cf. Table 3.
2. Polish investors and their foreign operations

Table 3. The number of entities in Poland having foreign operations by PKD section in 2011 and 2017

<table>
<thead>
<tr>
<th>Specification</th>
<th>2011 Number of entities in Poland</th>
<th>2011 Number of foreign operations</th>
<th>2017 Number of entities in Poland</th>
<th>2017 Number of foreign operations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>1,438</td>
<td>3,060</td>
<td>1,838</td>
<td>3,941</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>12</td>
<td>33</td>
<td>12</td>
<td>42</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>522</td>
<td>1,016</td>
<td>624</td>
<td>1,218</td>
</tr>
<tr>
<td>Electricity, steam and hot water supply</td>
<td>12</td>
<td>44</td>
<td>16</td>
<td>52</td>
</tr>
<tr>
<td>Water supply; sewerage, waste management and remediation activities</td>
<td>7</td>
<td>8</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Construction</td>
<td>202</td>
<td>327</td>
<td>201</td>
<td>267</td>
</tr>
<tr>
<td>Trade; repair of motor vehicles</td>
<td>314</td>
<td>688</td>
<td>406</td>
<td>779</td>
</tr>
<tr>
<td>Transportation and storage</td>
<td>57</td>
<td>104</td>
<td>80</td>
<td>236</td>
</tr>
<tr>
<td>Accommodation and food service activities</td>
<td>9</td>
<td>19</td>
<td>13</td>
<td>19</td>
</tr>
<tr>
<td>Information and communication activities</td>
<td>71</td>
<td>133</td>
<td>131</td>
<td>457</td>
</tr>
<tr>
<td>Real estate activities</td>
<td>53</td>
<td>173</td>
<td>69</td>
<td>147</td>
</tr>
<tr>
<td>Professional, scientific and technical activities</td>
<td>147</td>
<td>279</td>
<td>190</td>
<td>503</td>
</tr>
<tr>
<td>Administrative and support service activities</td>
<td>44</td>
<td>193</td>
<td>74</td>
<td>175</td>
</tr>
<tr>
<td>Other sections</td>
<td>18</td>
<td>43</td>
<td>15</td>
<td>39</td>
</tr>
</tbody>
</table>

Source: prepared by the PEI based on: *Działalność podmiotów posiadających jednostki...* (statistics).

In 2011–2017, the total number of persons employed in foreign operations owned by entities established in Poland went up by more than 38 per cent, from nearly 143,000 to more than 197,000. The top three sections in terms of employment were as follows: manufacturing (44,600 in 2011 and 59,400 in 2017)\(^7\), professional, scientific and technical activities (39,200 and 39,800 respectively) and trade; repair of motor vehicles (24,800 and 33,200). The most significant growth in the number of persons employed between 2011 and 2017 was noted in the following sections: administrative and support service activities (up by 779.1 per cent), electricity, gas, petroleum products (ca. 7,500) and the manufacture of fabricated metal products (nearly 7,000).

\(^7\) In 2017, the highest numbers of persons employed were recorded in three manufacturing divisions, i.e. in the manufacture of motor vehicles, trailers and semi-trailers (more than 12,000), the manufacture of coke and refined petroleum products (ca. 7,500) and the manufacture of fabricated metal products (nearly 7,000).
steam and hot water supply (287 per cent) as well as in information and communication activities (250 per cent).

In 2011–2017, the highest number of entities established in Poland and setting up foreign operations, active in manufacturing, pursued the manufacture of fabricated metal products (in 2011 – 103 entities, in 2017 – 106), the manufacture of rubber and plastic products (59, 76 respectively), the manufacture of machinery and equipment (45 and 59) and the manufacture of food products (53, 49). At the same time, the greatest outward FDI involvement measured by the number of foreign operations characterised entities engaged in the manufacture of fabricated metal products (in 2011 – 172, in 2017 – 156), rubber and plastic products (131, 119 respectively), machinery and equipment (86, 106), motor vehicles, trailers and semitrailers (44, 103) and food products (90, 74) – cf. Table 4.

Table 4. The number of entities in Poland having foreign operations by manufacturing division in 2011 and 2017

<table>
<thead>
<tr>
<th>Manufacture of</th>
<th>2011</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of entities in Poland</td>
<td>Number of foreign operations</td>
</tr>
<tr>
<td>Total</td>
<td>522</td>
<td>1,016</td>
</tr>
<tr>
<td>Food products</td>
<td>53</td>
<td>90</td>
</tr>
<tr>
<td>Beverages</td>
<td>7</td>
<td>17</td>
</tr>
<tr>
<td>Tobacco products</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Textiles</td>
<td>9</td>
<td>11</td>
</tr>
<tr>
<td>Wearing apparel</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>Leather and related products</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Products of wood and cork, articles of straw and plaiting materials</td>
<td>14</td>
<td>22</td>
</tr>
<tr>
<td>Paper products</td>
<td>9</td>
<td>10</td>
</tr>
<tr>
<td>Printing and reproduction of recorded media</td>
<td>6</td>
<td>12</td>
</tr>
<tr>
<td>Coke and refined petroleum products</td>
<td>7</td>
<td>53</td>
</tr>
<tr>
<td>Chemicals and chemical products</td>
<td>28</td>
<td>50</td>
</tr>
<tr>
<td>Pharmaceutical products</td>
<td>8</td>
<td>31</td>
</tr>
<tr>
<td>Rubber and plastic products</td>
<td>59</td>
<td>131</td>
</tr>
<tr>
<td>Other non-metallic mineral products</td>
<td>30</td>
<td>38</td>
</tr>
<tr>
<td>Basic metals</td>
<td>18</td>
<td>29</td>
</tr>
<tr>
<td>Fabricated metal products</td>
<td>103</td>
<td>172</td>
</tr>
<tr>
<td>Computer, electronic and optical products</td>
<td>12</td>
<td>25</td>
</tr>
</tbody>
</table>
## 2. Polish investors and their foreign operations

<table>
<thead>
<tr>
<th>Manufacture of</th>
<th>2011</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of entities in Poland</td>
<td>Number of foreign operations</td>
</tr>
<tr>
<td>Total</td>
<td>522</td>
<td>1,016</td>
</tr>
<tr>
<td>Electrical equipment</td>
<td>31</td>
<td>77</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>45</td>
<td>86</td>
</tr>
<tr>
<td>Motor vehicles, trailers and semi-trailers</td>
<td>18</td>
<td>44</td>
</tr>
<tr>
<td>Other transport equipment</td>
<td>9</td>
<td>18</td>
</tr>
<tr>
<td>Furniture</td>
<td>18</td>
<td>48</td>
</tr>
<tr>
<td>Other manufacturing</td>
<td>9</td>
<td>16</td>
</tr>
<tr>
<td>Repair, maintenance and installation of machinery and equipment</td>
<td>20</td>
<td>25</td>
</tr>
</tbody>
</table>

Source: prepared by the PEI based on: Działalność podmiotów posiadających jednostki...
(Tables).
3. Models and specific characteristics of outward foreign direct investment by Polish enterprises

At an early stage of economic transition, enterprises from Poland primarily focussed on improving their efficiency and innovation. Subsequently, some of them began the process of internationalisation, initially through exports and later through direct investment. Their investments were intended to facilitate entering new markets and then the acquisition of new resources and cost optimisation. Those efforts fuelled outward foreign investment by enterprises. As a consequence, the internationalisation of Polish enterprises was largely consistent with the Uppsala model, with four stages distinguished (cf. Figure 1).

Polish direct investment in the EU clearly rose after 2009. At present, such investment is primarily located in the CEECs and in Germany, attractive for Polish enterprises in geographic and cultural terms. On the one hand, it reflects a limited extent of outward foreign investment; on the other hand, it shows the reorientation of businesses – before 1990, undertakings were orientated towards economic activities in the internal market and cooperation with regional partners.

The geographical concentration of Polish direct investment is partly attributable to

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**Figure 1. Internationalisation stages according to the Uppsala model**

- **Stage I** the enterprise engages in no regular export and no investment abroad; as a result, it acquires no foreign market information.
- **Stage II** the enterprise starts to sell through independent agents, gradually using resources and gathering knowledge about limitations on and opportunities for sales in the foreign market concerned.
- **Stage III** the enterprise sets up a foreign sales office; at this stage, the firm seeks more extensive information on sale factors and investment necessary in the market concerned.
- **Stage IV** the enterprise sets up its own production subsidiary abroad; at this stage, the firm has relatively significant knowledge of the market and engages the most resources in the foreign market.

Source: Vahlne, Johanson (2017).
limited access to capital. Expansion to distant markets involves the need for increased expenditure, only accessible to large entities with relatively substantial financial resources. Differences between models of the international expansion of Polish enterprises can be found at industry level (Kowalewski, Radło, 2014). Industrial and production entities developed in accordance with the theory of the Uppsala model on evolution. Service enterprises moved through particular phases of internalisation more quickly. International corporations from emerging economies began to pursue advanced internationalisation strategies faster than businesses from developed countries, which facilitated speeding up the processes. Less developed countries took advantage of the backwardness effect and skipped stages on the development path.

Outward foreign investment by Polish enterprises continues to be at a much earlier stage that in the case of corporations from advanced economies. Polish firms have much less knowledge of and experience in carrying out international operations than the resources of traditional transnational corporations. Those entities merely start to build their competitive advantages that will allow them to effectively compete in foreign markets in the future, thus encouraging them to also take the opportunities arising from direct investment in more distant countries. In the process of internalisation, they rely on experience gained from the functioning in the regional market; it is one of the reasons why a significant number of Polish outward foreign direct investment projects are implemented in CEE.

Determinants of capital engagement abroad and, consequently, of the functioning of international enterprises include the economic and international conditions in the countries of origin. Economic factors, such as GDP, exports and inward FDI, are relevant to outward foreign direct investment by firms at every stage of the economic development of the countries of origin (Ciesielska-Maciągowska, 2019).

It follows from the analysis of variations in the relevance of specific factors to outward foreign direct investment that some of them diminish in importance in the case of capital engagement of Polish firms abroad (e.g. the protection of intellectual property rights), whereas other factors gain in significance (e.g. the role of clusters). It results from general development processes in the Polish economy.
4. Outward foreign direct investment by enterprises and its effects on the economy

Outward foreign direct investment may contribute to various positive structural changes as a result of increased operating and financial links arising from greater international economic cooperation and capital exchange (Gorynia, 2018). It is related to the fact that direct investment abroad is often complementary to exports of the country of origin and tends to stimulate foreign sales. Direct investment is a key element of the development of transnational corporations, contributing to the global integration of their resources by shaping their position in international value chains. It translates into a growing number and value of investment projects, reflecting outward foreign direct investment by enterprises.

Outward foreign direct investment involves the following positive effects:

→ observed on the part of the international enterprise making investments,
→ arising at the level of the functioning of the whole economy of the country of origin. It allows to satisfy development needs of the economy of the country of origin in terms of tangible and intangible resources, technology and export capacity.

Outward foreign direct investment entails the transfer of capital resources abroad – cf. Figure 2. On the other hand, it results in the flow of earnings to the country of origin and the transfer of knowledge obtained in the internalisation process, in particular with regard to technology, know-how, knowledge about the functioning of foreign markets and innovation. Therefore, such investment frequently contributes to positive structural changes in the economy of origin. It stimulates technological progress, a prerequisite for economic growth in the country of origin. Outward foreign direct investment results in the accumulation of scientific and technical knowledge in the investor’s country of origin and, therefore, it may further boost export capabilities of domestic enterprises.

The greatest benefits from outward foreign direct investment are derived by emerging economies and countries with economic structures similar to those of the Central and Eastern European countries, e.g. Poland.

The level and significance of external effects to the economy of the origin of direct investment largely depend on the degree of its economic development (Ciesielska-
Maciągowska, 2019). More developed countries, including economies after transition and mature emerging economies, can benefit the most from favourable effects of such investment. It results from the fact that their endowment with capital, absorption capacity and international exposure are already significant, whereas they still have vital development needs with regard to building their international trade positions, technology acquisition and the exchange of economic experience. In contrast, countries with relatively low national income are unable to generate the aforementioned effects as the functioning of their economies is strongly limited by the impossibility to handle capital, thus by the lack of access to investment capital and a relatively low number of multinational enterprises. It means that they derive greater benefits from the implementation of foreign direct investment much more rarely. Similarly, in the case of the most advanced economies, such benefits – due to a high degree of development – are positive but relatively minor. The greatest benefits in this regard are derived by emerging economies and countries with economic structures similar to those of the Central and Eastern European countries, e.g. Poland. It primarily results from their significant absorption capacities with regard to the acquisition of new technologies and distribution channels. Those arise in developed internal markets, functioning within strong international economic communities. It increases the possibility to benefit from favourable effects of outward foreign direct investment and opportunities for the acquisition of technological resources, knowledge, human capital and experience through internal exchange.

**Figure 2. Effects of outward foreign direct investment on the economy of the country of origin**

Source: Ciesielska-Maciągowska (2019).
5. Poland’s position on the investment development path

In an assessment of the role of foreign direct investment in the development of an economy, one must not forget that its importance changes with the country’s economic development. One theory describing this evolution is the so-called investment development path hypothesis.

The investment development path theory shows the relationships between an economy’s inward FDI per capita, outward foreign direct investment per capita from a selected country and its economic development level, measured by GDP per capita.

According to the assumptions of the theory, foreign direct investment can be divided into five stages of development. On the investment development path, those are related to Dunning’s eclectic paradigm (1980) – OLI. According to the paradigm, in order to be competitive in international markets, enterprises should have three types of advantages. Those are as follows:

→ **ownership advantages** result from specific characteristics of an enterprise – firms engaging in international expansion must have monopolistic or competitive advantages to be successful in international markets and to earn profits. Such advantages may involve various assets, e.g. intangible assets, know-how, a brand, the organisational structure, human capital, etc.;

→ **location advantages** are specific characteristics of the location related, *inter alia*, to relative advantages of the economy concerned that encourage businesses to invest;

→ **internalisation advantages** are connected with the existence of transaction costs and the fact that enterprises choose to perform various transactions within their organisational structures rather than through the market and, therefore, invest abroad in the setting up of their own branches or subsidiaries.

As a consequence, it means that differences in an economy’s inward and outward FDI flows result from both the conditions prevailing in the economy, influencing investment decisions of foreign entities, and from the level of the development of enterprises operating in the economy, determining their capacity for investing abroad.

The investment development phases described are indicative in nature; moving from one stage to the next is not automatic and it is possible to move forwards and backwards along the development path.

In 2004–2017, the Central and Eastern European countries were characterised by relatively significant similarities in terms of position on the investment development path (IDP). By 2017, most of them (Poland, Estonia, the Czech Republic, Slovakia, Slovenia and Hungary) managed to achieve the initial phase of stage III of investment development, whereas Lithuania and Latvia remained at stage II – cf. Figure 3.
5. Poland’s position on the investment development path

In 2017, Poland’s GDP per capita (at constant prices from January 2004) was nearly USD 10,400, resulting in Poland’s net outward investment position per capita at USD -4,000. It corresponded to the initial phase of the third stage of the investment development path followed by Poland in 2004–2017. According to the model presented, Poland will move to the fourth stage of the investment development path upon reaching GDP per capita of USD 17,300 (at constant prices from January 2004). Chart 12 presents the model of Poland’s direct investment development path determined on the basis of time series for 2004–2017.

Stage I It concerns the least developed countries whose inward and outward foreign direct investment is very low. A country at this stage of investment development is not competitive, having neither specific ownership advantages of local enterprises nor location advantages.

Stage II A country’s inward FDI significantly rises as a result of the emergence of specific location advantages. It translates into increased attractiveness of the country to international corporations. Nevertheless, domestic enterprises are still characterised by relatively low market advantages: they are not capable of investing abroad on a larger scale.

Stage III A country’s outward foreign direct investment starts to go up, as a result of the development of domestic enterprises.

Stage IV It is characterised by a positive net outward investment position. It results from a significant increase in the ownership advantages of undertakings established in the country concerned, pushing up outward foreign direct investment.

Stage V It is characteristic of the most advanced economies. The stock of inward FDI per capita is roughly the same as that of outward FDI per capita for the economy concerned.


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8. In 2017, Poland’s GDP per capita, at current prices, was ca. USD 13,800 and its net outward investment position per capita reached USD -5,300 as at the end of the year.
Considering the level of Poland’s GDP per capita, Poland’s current position on the investment development path (stage 3) is relatively low in comparison to those of other developed countries. It points to the necessity of measures aimed at institutional support for outward FDI. It results from positive effects of such investments on the building of market advantages by domestic enterprises in the country of origin and abroad and from their importance from the point of view of the economies of origin. Further development of outward foreign direct investment by Polish undertakings should be characterised by significantly faster growth until they reach the level of typical of advanced economies such as Germany, the United Kingdom or the United States.
6. Motives for and barriers to outward investment and the development of their importance over time (on the basis of findings from 2006–2019 surveys)

MOTIVES FOR CHOOSING TO INVEST ABROAD

Although investment forms are subject to continuous improvement and differentiation, classic motives for investing abroad have basically remained valid. Over time, certain motives may gain or diminish in importance. The literature proposes various divisions of motives for taking foreign activities. As a rule, there are three types of business motivation for investing abroad. Undertakings seek:

→ markets (*market seeking*) in order to increase the scale of operations, thus to push up rates of return,

→ efficiency (*efficiency seeking*) consisting in reducing unit labour costs, rents and benefits, e.g. in the social area, etc.,

→ resources (*resource seeking*), i.e. improved access to new markets, new or more secure sources of supply with raw materials and consumables (Kotyński, 2013).

J. Dunning distinguished one more type of motivation, namely strategic asset seeking – i.e. seeking access to strategic resources, primarily related to *know-how*, production technology, distribution, etc. aimed at maintaining or improving the international competitive positions of businesses.

The existing literature provides the results of various studies concerning the subject. They indicate that the main motive behind the capital internationalisation of Polish undertakings continues to be market seeking. Research has also confirmed the importance of institutional incentives for Polish investors abroad (Karaszewski i in., 2009). Subsequent analyses carried out by Karaszewski (2013a, 2013b) in 2010–2012 showed the significance of market seeking as a driver of FDI, not indicating cost-related motives as relevant to investment location. As noted by Jaworek (2013), the studies conducted did not demonstrate the relevance of cost-related motives to the location of direct investment within the EU. In the EU, in addition to market-seeking motives, undertakings attached importance to institutional and system conditions, in particular to business friendliness, legislation stability, regulations concerning economic activity or the tax system. There is a clear relationship between the motives for outward investment and the host country (Gorynia, Trąbczyński, 2014). Motives behind investing activities vary across sectors. Factors relating to strategic
asset seeking are more important to technology enterprises that to undertakings operating in other industries (Wiliński, 2012).

For many years, in collaboration with the Central Statistical Office (GUS), the Institute has conducted annual surveys regarding export activities of enterprises from the manufacturing section. Some of the survey questions concern the internationalisation of enterprises in the form of foreign direct investment. Undertakings are asked whether they invest abroad, what their investment plans for the next few years are, what motivates them to make such decisions. According to the most recent survey carried out in October 2019, always addressing a representative group of 600 exporting enterprises selected by GUS, even among Polish exporters only every tenth undertaking takes up investing activities abroad in the form of direct investment (10.2 per cent of the respondents).

**WHAT ENTERPRISES INVEST ABROAD?**

In general, outward foreign direct investments are implemented by large enterprises, with 250 or more employees (in 2019, they accounted for 100 per cent of the respondents investing abroad, in 2017 – ca. 80 per cent). They are primarily wholly owned by Polish entities – according to the 2019 survey, such businesses already represented 86 per cent (in 2017 – more than 63 per cent). Exporters investing abroad tend to be characterised by a high degree of export orientation. Half of them exported over 50 per cent of their output, whereas only every fifth declared exports up to 10 per cent of total sales. Nearly 60 per cent of Polish outward investors assessed their technology level as medium-high. It is worth noting significant investing activities of enterprises implementing new technologies – outward investment was declared by more than three-fourths of the surveyed enterprises within the group (78.6 per cent). Investors frequently used EU funds (71 per cent).

Enterprises investing abroad accounted for 10 per cent of the respondents (2019), whereas the previous edition of the survey (2017) indicated 9 per cent; according to the 2016 edition, they represented 7 per cent.

In 2020–2021, outward investment was intended by 9 per cent of the respondents. The share of such enterprises was ca. 8 per cent according to the investment plans for 2012–2013 declared earlier in the decade, whereas the highest proportion (12 per cent) was noted in 2015–2016.

Firms established in Poland and investing in foreign markets encountered various obstacles; one-third experienced discriminatory regulations or informal barriers (36 per cent).
WHAT MOTIVATES ENTERPRISES TO UNDERTAKE OUT-WARD FOREIGN DIRECT INVESTMENT?

The results of the surveys conducted by the Institute confirm that market factors seem to be basic considerations in making decisions on outward foreign direct investment by enterprises based in Poland. The fundamental motive for choosing to invest abroad is market seeking. The most frequent investment locations are markets where such an outward investor pursues trade activities (export).

Since 2008, market factors have gained in importance to Polish investors in making their outward investment decisions (Chart 13). In the most recent survey, as many as 93 per cent of enterprises investing abroad indicated market expansion as their motive for investment. Over time, other reasons for investing abroad become ever less significant to investors. It also concerns lower production costs – the second most vital motive behind investing activities in the period in question. In 2019, none of the surveyed enterprises found lower production costs to be important considerations in engaging in outward foreign direct investment (there were no such indications). Prior years’ surveys sometimes produced similar results. Since 2014, other motives listed in the survey questionnaire, such as investment incentives, lower taxes, a stable political situation or the willingness to avoid tariff barriers, have been seen by the respondents as having little or no

Chart 13. The most important motives for outward foreign direct investment by Polish enterprises in 2006-2019 (in per cent)

Source: prepared by the PEI on the basis of the 2006–2019 surveys.
The survey results show changes in the preferences of enterprises with regard to geographic destinations considered in investment plans concerning business internationalisation through outward foreign direct investment between 2006 and 2019. Some undertakings were interested in locating investments in more than one market. After Poland’s accession to the European Union, EU markets became more important to Polish enterprises planning outward foreign direct investment. Chart 14 illustrates changes in the preferences of exporters with regard to geographic destinations for direct investment in 2008–2019.

WHERE DO POLISH ENTERPRISES INVEST?

The survey results show changes in the preferences of enterprises with regard to geographic destinations considered in investment plans concerning business internationalisation through outward foreign direct investment between 2006 and 2019. Some undertakings were interested in locating investments in more than one market. After Poland’s accession to the European Union, EU markets became more important to Polish enterprises planning outward foreign direct investment. Chart 14 illustrates changes in the preferences of exporters with regard to geographic destinations for direct investment in 2008–2019.

Chart 14. Planned geographic destinations for Polish outward foreign direct investment in 2006-2019 (two-year plans, in per cent)

In 2006, as shown by the findings from the survey (the first survey conducted by the Institute), in their outward foreign direct investment plans enterprises from Poland indicated Ukraine and Belarus more frequently that the European Union as the investment destination (Chart 14). Significant changes can be observed after 2008. The global financial and economic crisis (in 2008–2009) largely contributed to geographic reorientation of planned investment. Ever less direct investment was planned to be located in the Eastern
6. Motives for and barriers to outward investment and the development of their importance...

European markets (Ukraine, Russia, Belarus), whereas the EU became the preferred outward FDI location. To a certain degree, in 2010 it was stimulated by business and direct investment support programmes prepared and implemented by some of the EU Member States. The years 2010–2012 witnessed significant interest from exporting investors in the Chinese market. Possibly, it was attributable to measures taken by both the Polish and Chinese authorities. In December 2011, in Beijing Poland and China announced entering into a strategic partnership. A branch of the Bank of China (BOC) in Poland began to operate in June 2012. However, China then made certain decisions on customs charges that adversely affected foreign (including Polish) investor sentiment. Some Polish enterprises even responded by disinvesting in the Chinese market, which was clearly reflected in the respondents’ investment plans in the following years; the Russian, Ukrainian and Belarusian markets also appeared to be decreasingly attractive, in favour of the EU. In 2016–2017, the EU Member States from Central Europe were indicated as the intended locations for approximately 30 per cent for planned investment projects, of which the Czech Republic accounted for nearly one-third. Germany was the declared destination for three-fourths of the remaining part (from 70 per cent of the total amount) of planned direct investment in the EU. Investors increasingly selected distant markets such as North or South American countries (6 per cent), or African countries (3 per cent).

According to NBP data, at the end of 2018 Poland’s income on outward FDI in European countries represented 89.9 per cent of total income on outward FDI, of which the EU accounted for a vast majority (86.8 per cent). As indicated by the PEI survey results, the situation may remain virtually unchanged also in the years to come. According to the declared investment plans, in 2020–2021 exporters also intend to locate the most direct investment in the EU, mainly in Germany and in the Czech Republic. But in comparison to the previous survey results, the indicated locations for planned investment projects showed a decline in the share of EU markets (63 per cent of indications), accompanied by a rise in the proportion of North and South American countries (10.5 per cent) and in that of Africa (10.5 per cent) – Chart 15. It is worth noting that Polish investors are increasingly interested in the markets of Central European Member States.

**Chart 15. Geographic destinations of Polish outward foreign direct investment, planned for 2020-2021 (in per cent)**

Source: as in Chart 13.
A clear dominance of Europe as the destination for Polish direct investment, especially of the neighbouring countries, shows that geographic and cultural proximity continues to be relevant to outward investing activities of businesses. An additional factor encouraging the selection of such an investment location is the previous export experience of undertakings. The concentration of Poland’s direct investment on the European market may also be largely due to limited resources and the lack of experience in more distant markets.

**WHY DO ENTERPRISES REFRAIN FROM INVESTING ABROAD?**

According to the results of surveys of Polish exporters conducted by the Institute, the reasons for little interest from Polish enterprises in outward investment are largely structural in nature:
- ca. 70 per cent of the respondents make no outward investment as they find it unnecessary,
- for 16 per cent of the respondents, investing activities are excluded from the group strategy; therefore, they have no independent investment policies.

Such a structure may indicate that effective tools for supporting Polish outward FDI would be – first of all – indirect instruments, orientated towards permanent improvement of the foundations for the international competitiveness of Polish enterprises. In particular, they would serve to identify a group of champions to play the role of outward foreign direct investment leaders.

**Chart 16. The most important reasons for refraining from outward investment in 2006-2019 (in per cent)**

Source: as in Chart 13.
The vast majority of the enterprises surveyed make no outward investments (91 per cent of the respondents in 2019). For many years, the share of undertakings giving such an answer has remained at around 91 to 93 per cent, with the exception of 2010 when it rose to 97 per cent. The main reason indicated continues to be ‘no need to invest’ (in 2019 – 68 per cent) – Chart 16. After 2008, even if to a limited extent, the determinant gained in significance. Another important reason for non-investment abroad is the absence of an independent investment policy where the undertaking concerned is a group company (in 2019 – 16 per cent). In the period covered, the lack of funds posed a decreasingly severe obstacle to the internationalisation of enterprises. In 2007–2008, it was relevant to ca. 10 per cent of the respondents. In 2014, only 5 per cent of undertakings indicated that reason as a barrier to implementing investment projects abroad and the proportion dropped further in 2015–2016. But in the last two surveys the percentage of such indications showed a slight increase (in 2017 – 6 per cent, in 2019 – 7 per cent). However, the rise does not seem significant enough to unequivocally establish that the financial position of enterprises deteriorated. The other reasons for refraining from outward investment indicated in the survey questionnaire (the lack of information, the lack of state guarantees, significant business risk and other reasons) were of little relevance to the process of making decisions on non-investment abroad (the shares of answers ranged between 1 and 4 per cent of non-investing exporters, depending on the category).
7. State support for undertakings investing abroad

Whereas foreign direct investment located in Poland has been material to reinforcing economic growth or promoting Polish exports in the past two decades, outward FDI by Polish enterprises will gain in importance in the coming years. It means that the government economic policy for foreign investment should become more focussed on creating facilities for Polish firms investing abroad.

Polish undertakings increasingly implement their outward expansion plans. It concerns not only exporters of goods and services, but also Polish investors operating or taking up economic activities abroad in various forms.

A crucial element facilitating such business expansion can be public support, particularly in situations where economic and political conditions are not fully favourable. The most frequent forms comprise operational support (e.g. legal services, consultancy, promotion, training, assistance in establishing foreign relationships, analytical and technical services, etc.) and financial aid. In the implementation of their plans, investors may obtain various types of assistance from the national institutions included in the Polish Development Fund (PFR) Group, such as: PFR TFI, PAIH, BGK, KUKE; as well as from self-regulatory organisations.

POLISH INVESTMENT AND TRADE AGENCY – POLSKA AGENCJA INWESTYCJI I HANDLU S.A.

An important entity in the structure of supporting institutions is the Polish Investment and Trade Agency (Polska Agencja Inwestycji i Handlu S.A. – PAIH), with its special Polish Investment Support Department, responsible for assisting undertakings interested in outward foreign direct investment. The instruments (assistance measures) offered by PAIH include:

- investment workshops (organised across Poland),
- fact-finding missions,
- study tours,
- strategic consultancy,
- consultancy on obtaining national and local support instruments,
- consultancy on obtaining investment incentives abroad,
- relationship support – cooperative links,
- after-care services.

Support provided by the staff of the Department encompasses services such as supplying appropriate information resources necessary to make an investment decision, consultancy on the location of an investment project and assistance in obtaining investment incentives available in the host country. Due to cooperation with foreign investment promotion agencies, i.e. the key institutions fostering inward FDI in individual countries, the Department has access to reliable and professional information on the

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market selected by the investor concerned, including data on financing instruments or insurance. An initiative vital to novice investors is the Agency’s assistance at the earliest stage of the implementation of any expansion plan, i.e. in building a comprehensive strategy for outward foreign direct investment.

A significant role in supporting investors is played by PAIH Foreign Trade Offices (Zagraniczne Biura Handlowe – ZBH, ca. 70 worldwide), most frequently the first contact points for Polish enterprises. ZBH experts are responsible for the provision of information on the country’s market (analyses, reports, handbooks), the cocreation of networks of relationships with local entities and institutions, the organisation of training for Polish and foreign undertakings as well as for the verification of business partners. PAIH and ZBH assistance is provided both free of charge and for a fee; the fee depends on the type and scope of support.

In the most recent survey of Polish exporters carried out by the PEI in collaboration with GUS (2019), undertakings were asked whether they benefited or intended to benefit from the forms of outward foreign direct investment support offered by PAIH.

Fact-finding missions and study tours appeared to be the most popular with the surveyed exporters. A total of 12 per cent of the respondents benefited and intended to benefit from them – cf. Chart 17. Such undertakings included large enterprises (20 per cent of the group), beneficiaries of EU funds (24.5 per cent), entities implementing new technologies (18.6 per cent) and classified as innovative (13.2 per cent) – cf. Tables 5 and 6. Wholly owned Polish companies expressed interest in fact-finding missions and study tours five times more often (15.3 per cent) than foreign-owned companies (2.9 per cent). In addition, a total of nearly 16 per cent of undertakings whose exports represented more than 50 per cent of total sales benefited or intended to benefit from such missions and tours. The form of support in question was popular with entities exporting to non-EU Balkan markets (as declared by 28 per cent of the respondents from the group), China (22.2 per cent) and Germany (15.4 per cent) as well as with medium-high, medium-low and low technology firms – more than ten per cent of each group.

Chart 17. Respondents benefiting and intending to benefit from outward FDI support instruments offered by PAIH (per cent of indications)

Source: prepared by the PEI on the basis of the 2019 survey.
Nearly 10 per cent of the respondents confirmed their interest in investment workshops organised in Poland. Those were the most popular with large undertakings, with more than 250 employees (14 per cent of entities from the group), firms benefiting from EU funds (16.7 per cent), implementing new technologies (13.8 per cent), characterised by a medium or high share of exports in total sales and with enterprises exporting to non-EU Balkan markets (12.5 per cent) and China (11.5 per cent). With regard to the instrument in question, it seems worth noting that interest in workshops organised in Poland increased with technology intensity – the most interest was declared by high technology enterprises (20 per cent of the respondents classified in the group), whereas it attracted the least interest from low technology firms (5.9 per cent). Wholly owned Polish entities (11.3 per cent of the group) were twice as interested in attending investment workshops as foreign-owned companies (5.7 per cent).

Relatively few of the enterprises surveyed in particular groups indicated strategic consultancy. The instrument appeared to be important to 40 per cent of exporters representing the high technology group and to nearly 10 per cent of medium-sized exporters. Less interest was expressed by beneficiaries of EU funds (8.3 per cent), large enterprises (8 per cent of the group) and firms exporting to China (7.7 per cent). Somewhat greater interest was noted with regard to consultancy on obtaining investment incentives abroad. The group of entities benefiting and intending to benefit from this form of support comprises high technology exporters (20 per cent of the surveyed enterprises from that group), medium-sized exporters (12.9 per cent), beneficiaries of EU funds (10.4 per cent) and firms exporting to non-EU Balkan markets. Support for cooperative links mostly attracted high technology enterprises (20 per cent), beneficiaries of EU funds (10.2 per cent) and exporters with a medium share of exports in total sales (9.7 per cent).

Table 5. Use of Polish outward FDI support instruments offered by PAIH (per cent of indications) - part 1

<table>
<thead>
<tr>
<th>Specification</th>
<th>Total</th>
<th>Number of persons employed</th>
<th>Share of exports in total sales</th>
<th>Form of ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>up to 49</td>
<td>50 to 249</td>
<td>250 or more</td>
</tr>
<tr>
<td>Investment workshops in Poland</td>
<td>9.8</td>
<td>8.9</td>
<td>5.4</td>
<td>14.0</td>
</tr>
<tr>
<td>Fact-finding missions and study tours</td>
<td>12.0</td>
<td>67</td>
<td>79</td>
<td>20.0</td>
</tr>
<tr>
<td>Strategic consultancy</td>
<td>5.3</td>
<td>2.2</td>
<td>5.4</td>
<td>8.0</td>
</tr>
<tr>
<td>Consultancy on obtaining investment incentives abroad</td>
<td>6.1</td>
<td>8.9</td>
<td>2.7</td>
<td>6.0</td>
</tr>
<tr>
<td>Support for cooperative links</td>
<td>4.5</td>
<td>67</td>
<td>2.6</td>
<td>4.0</td>
</tr>
<tr>
<td>Post-investment services</td>
<td>1.5</td>
<td>0</td>
<td>2.7</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: prepared by the PEI on the basis of the 2019 survey.
7. State support for undertakings investing abroad

**Table 6. Use of Polish outward FDI support instruments offered by PAIH (per cent of indications) - part 2**

<table>
<thead>
<tr>
<th>Specification</th>
<th>Total</th>
<th>Firms by technology intensity</th>
<th>Exporting firms</th>
<th>Food Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>High</td>
<td>Medium-high</td>
<td>Medium-low</td>
</tr>
<tr>
<td>Investment workshops in Poland</td>
<td>9.8</td>
<td>20.0</td>
<td>14.3</td>
<td>9.8</td>
</tr>
<tr>
<td>Fact-finding missions and study tours</td>
<td>12.0</td>
<td>0</td>
<td>14.3</td>
<td>12.2</td>
</tr>
<tr>
<td>Strategic consultancy</td>
<td>5.3</td>
<td>40.0</td>
<td>2.9</td>
<td>4.9</td>
</tr>
<tr>
<td>Consultancy on obtaining investment incentives abroad</td>
<td>6.1</td>
<td>20.0</td>
<td>8.6</td>
<td>4.9</td>
</tr>
<tr>
<td>Support for cooperative links</td>
<td>4.5</td>
<td>20.0</td>
<td>0</td>
<td>7.3</td>
</tr>
<tr>
<td>Post-investment services</td>
<td>1.5</td>
<td>0</td>
<td>2.9</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: as in Table 5.

PFR TFI S.A.

In addition to PAIH, another important entity supporting Polish investors planning operations or operating abroad is PFR TFI S.A., managing the Foreign Expansion Fund (Fundusz Ekspansji Zagranicznej – FEZ). The Fund grants loans, on market terms, to foreign companies owned by Polish enterprises, solely secured by foreign assets or unsecured, for a period necessary to implement the expansion project concerned. The Fund also offers equity financing of foreign subsidiaries, always holding a minority stake and leaving the project management to the Polish partners. It may co-finance the acquisition of a foreign company, the setting up of a new subsidiary or further development of an existing foreign subsidiary. Its activities comprise investment in production, distribution and service companies, in both European Union Member States and high-risk countries. The Fund typically invests from one to several million euros in a single project. To date, the Fund has concluded around a dozen investment agreements and the scale of its operations has been growing quickly. The Foreign Expansion Fund bridges the gap in the Polish financial market and helps eliminate the main barriers to international expansion of Polish enterprises – by taking up equity shares in foreign subsidiaries, the Fund shares the risks involved in the project without taking control of it or interference with the ownership structure of

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10 FEF investment certificates are held by Bank Gospodarstwa Krajowego (BGK).
the Polish parent company. It ensures long-term financing for a period necessary to implement the extension of a foreign plant, the restructuring of an acquiree, customer acquisition. Equity financing provided by the Fund directly to the balance sheet of the foreign subsidiary concerned facilitates the acquisition of large foreign entities in relation to the Polish company, with no debt burden on the balance sheet of the Polish acquirer. Funding from the Foreign Expansion Fund offers growth opportunities for undertakings with limited access to bank loans – commercial, distribution, service and IT companies, with no tangible assets to use as collateral for the bank.

KUKE S.A.

A useful tool available to Polish enterprises investing abroad is the insurance cover offered by KUKE S.A., for losses suffered in connection with the implementation of outward foreign direct investment as a result of events referred to as political risk. Compensation is also paid if the investment project concerned is destroyed as a consequence of force majeure (e.g. an earthquake, flood, fire, warfare). Outward foreign direct investment projects covered by insurance offered by KUKE include the acquisition of a foreign enterprise or of its business, the setting up and running of an enterprise (including a branch or a sales office) abroad, the acquisition of real property, etc. Insurance is provided for an investment period as long as 15 years, covering up to 90 per cent of the investment project amount.

OTHER ENTITIES SUPPORTING INVESTORS

It is also worth mentioning briefly the existing opportunities for operational support offered to investors by entities other than public administration units. Those are self-regulatory organisations (sectoral and regional economic chambers and chambers of commerce and industry). Support for Polish investors abroad is declared by the Association of Polish Chambers of Commerce Abroad (PolCham), helping undertakings in opening a sales office, a branch, etc., offering legal advice and assistance in establishing relationships with business partners.

Polish investors are supported not only by domestic entities, but also by foreign institutions. For example, such support is offered by the American Chamber of Commerce (AmCham) operating in Poland. In 2019, the AmCham launched the American Investor Desk – a support programme for Polish enterprises interested in investments in the US market. Within the programme, US experts are willing to share their US market experience with Polish partners, e.g. with regard to running an investor support organisation. Specialists present various methods and legal forms of presence in the US,
facilitate relationships with the authorities and industry organisations.\textsuperscript{11}

The system of supporting expansion abroad, including outward investment, may become an effective tool used by Polish investors. The previous reforms of the outward expansion support system, introduced in 2017, deserve a positive assessment. The conversion of former PAIiIZ into PAIH, the Agency’s supervision of the network of Foreign Trade Offices (ZBH), the revision of ZBH locations and specifying their tasks and performance evaluation criteria may have favourable effects on the efficiency of assistance offered by the Agency.

At present, it is difficult to provide specific performance assessments of the system for supporting Polish investors abroad as the system is not yet fully operational. PAIH is a relatively young institution, whereas its Foreign Trade Offices have only recently completed the formation process.

A comparison of Poland’s outward expansion support system with its Western European counterparts (e.g. in Germany, the United Kingdom) shows the scale gap. German undertakings abroad are supported by 140 AHK establishments worldwide (chambers of commerce), UK enterprises are assisted by 270 diplomatic missions, whereas only 70 PAIH establishments are available to Polish businesses.

It seems that the government promotion and support policy should aim to improve the situation, by gradually increasing budgets for the promotion of and support for Polish enterprises and by employing competent personnel at business support institutions.

List of figures, tables and charts

- Figure 1. Internationalisation stages according to the Uppsala model ........................................ 24
- Figure 2. Effects of outward foreign direct investment on the economy of the country of origin .......................................................... 27
- Figure 3. Stages of the investment development path .......................................................... 29
- Table 1. The number of entities in Poland having foreign operations by size class in 2011 and 2017 ........................................................................ 19
- Table 2. Number of foreign operations by continent in 2011–2017 ............................................. 20
- Table 3. The number of entities in Poland having foreign operations by PKD section in 2011 and 2017 ................................................................ 21
- Table 4. The number of entities in Poland having foreign operations by manufacturing division in 2011 and 2017 .......................................................... 22
- Table 5. Use of Polish outward FDI support instruments offered by PAIH (per cent of indications) – part 1 .......................................................... 40
- Table 6. Use of Polish outward FDI support instruments offered by PAIH (per cent of indications) – part 2 .......................................................... 41
- Chart 1. Global inward FDI flows in 2006-2018 (USD million) ................................................. 9
- Chart 2. Global FDI stock by group of countries at the end of 2018 (in per cent) .......................................................... 10
- Chart 3. Poland’s outward foreign direct investment (outflow and income) in 2003–2018 (in PLN million) .......................................................... 12
- Chart 4. Structure of Polish outward foreign direct investment at the end of 2018 (in per cent) .......................................................... 13
- Chart 5. Stock of outward foreign direct investment from CEE and from Poland in 2004–2018 (year-end data, in USD million) ............................................. 15
- Chart 6. Stock of outward foreign direct investment from the CEECs and from Poland in 2004–2018 (year-end data, in USD million) ............................................. 15
- Chart 7. Stock of outward foreign direct investment from the CEECs at the end of 2018 (in USD billion) .......................................................... 16
- Chart 8. Shares of the CEECs in the stock of outward foreign direct investment from CEE at the end of 2018 (in per cent) .......................................................... 16
- Chart 9. Stock of outward foreign direct investment from the CEECs per capita as at the end of 2018 (in USD) .......................................................... 17
- Chart 10. The number of entities established in Poland and having foreign operations and the number of their foreign operations in 2008–2017 .......................................................... 18
- Chart 11. Entities having foreign operations by legal form in 2011–2017 (number of entities) .......................................................... 20
- Chart 12. Poland’s direct investment development path on the basis of time series for 2004–2017 (at constant prices from January 2004) .......................................................... 30
- **Chart 13.** The most important motives for outward foreign direct investment by Polish enterprises in 2006–2019 (in per cent) ............................................. 33
- **Chart 14.** Planned geographic destinations for Polish outward foreign direct investment in 2006–2019 (two-year plans, in per cent) .................................................. 34
- **Chart 15.** Geographic destinations of Polish outward foreign direct investment, planned for 2020–2021 (in per cent) .......................................................... 35
- **Chart 16.** The most important reasons for refraining from outward investment in 2006–2019 (in per cent) .......................................................... 36
- **Chart 17.** Respondents benefiting and intending to benefit from outward FDI support instruments offered by PAIH (per cent of indications) ........................................... 39
References


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The Polish Economic Institute

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